



Pension PERSpective^{#3}

A Newsletter for Members of the Public Employees' Retirement System

Spring 2004 ♦ State Legislative Edition

The Division of Pensions and Benefits ♦ (609) 292-7524

New Pension Loan Regulations

New Internal Revenue Service (IRS) regulations, effective January 1, 2004, required the Division of Pensions and Benefits to change its pension loan repayment policies. For loans taken on or after January 1, 2004, you must repay that loan and any previous outstanding balance within a five-year period. **If you take a second loan after January 2004 and the original loan balance is not completely paid off, the repayment period will remain five years from the date of the first loan taken after January 1, 2004.** Failure to repay the loan within the five-year period will result in the unpaid balance being declared a taxable distribution.

These new regulations may result in either a **substantial increase** in your repayment amount, or it may even limit the amount that you can borrow, if the payroll deductions needed to repay the loan requested in the five-year repayment period would exceed the 25 percent of salary restriction mandated by State law. The two examples below illustrate the new policy:

1. A member takes a pension loan for \$3,000 in January 2004, and makes the minimum payment of \$100 per month. The member repays the loan in June 2006, well within the five-year repayment window ending in January 2009. Since the member

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Temporary Reduction in Contribution Rate to End

Effective July 1, 2004, State employees who are members of the Public Employees' Retirement System (PERS) will have their member contributions deducted at the full contribution rate of 5 percent, as set by law.

When surplus pension assets in the Public Employees' Retirement System exist, New Jersey statute authorizes temporary reductions in the PERS member contribution rate, and PERS members have enjoyed such temporary reductions since 1998; however, statute also requires the return to the full rate when there are no longer surplus pension assets in the pension fund. Your employer will begin to deduct the full 5 percent member contribution rate on the first payday on or after the effective date of July 1, 2004.

From the Director

The *Personal Benefits Statement* you have received offers a look at many of the facets of your membership in the Public Employees' Retirement System (PERS), one of the State defined benefit plans administered by the New Jersey Division of Pensions and Benefits. It provides information about your PERS membership and the benefits to which you are entitled, such as your member contributions, the service credit you have accumulated, and any outstanding loan balance you may have (as of December 12, 2003). It can be a useful tool in retirement and estate planning.

PERS members with at least three years of posted service credit may continue to take loans against their member contributions, with the loan interest rate remaining at 4 percent per year on the declining balance of the loan; however, in compliance with IRS regulations, there have been some loan policy changes you will want to become familiar with if you plan to take a pension loan, as explained in the article at left.

Finally, Governor James E. McGreevey has signed the Domestic Partnership Act into law, effective July 10, 2004, allowing two persons who meet the requirements and provisions of the law to become domestic partners, and extending some benefits to dependent domestic partners under certain conditions (see "Domestic Partnership Act" on page 2). As soon as the specific effects of this new law on the benefits offered under a PERS membership have been determined, particularly in the areas of survivor benefits (group life insurance and pension) and dependent health benefits coverage under the State Health Benefits Program, the Division will make this information available to our PERS members.

*Frederick J. Beaver, Director
Division of Pensions and Benefits*

New Pension Loan Regulations *(continued from page 1)*

has already repaid the first loan, the member would have until October 2011 to repay a second loan of \$3,000 taken in October 2006. **The member would not see anything different in the way the loans are administered.**

2. A member takes a loan for \$3,000 in January 2004, and also has an outstanding loan balance of \$3,000. A minimum payment of \$100 is calculated on the combined \$6,000 balance, so that the loan and interest will be repaid in January 2009, within the allowable five-year window. If the member takes another \$3,000 loan in January 2005, the member is still locked into the five-year window of the first loan, because the 2004 loan is still outstanding. Therefore, the combined balance of \$7,800 (\$6,000 original balance minus \$1,200 paid in 2004 plus \$3,000 new loan = \$7,800) would require a monthly payment of \$162.50 to pay off the loan before January 2009. **The member sees a significant increase in the loan repayment amount beginning with the second loan.** (Under the 2003 rules the payment would have only been \$130.) If the member borrows \$3,000 again in January 2006, the difference becomes more apparent. Now, the combined balance of \$8,850 (\$7,800 - \$1,950 + \$3,000 = \$8,850) requires a monthly payment of \$245.84 to be repaid in full by January 2009.

The *Loan Application* packet has been revised to include a discussion of the five-year rule. Explanations are also available on our Web site, at: www.state.nj.us/treasury/pensions/loan_poster_2004.pdf

Your *Personal Benefits Statement* — What's New?

As you examine your *Personal Benefits Statement* for this year, you may notice that only the last four digits of your Social Security number have been printed, rather than your full Social Security number. The elimination of the beginning digits of your Social Security number from this document is an important step taken by the Public Employees' Retirement System (PERS) in recent months to help prevent identity theft and other forms of misuse of a member's personal information.

Whenever you call, e-mail, or write in about your PERS membership, you may, in many cases, use your membership number to reference your pension accounts, in place of your Social Security number. You can find your membership number listed on the *Personal Benefits Statement* that you have received with this newsletter, your paycheck stub, and on personal correspondence from the PERS.

Domestic Partnership Act

In enacting Chapter 246, P.L. 2003, New Jersey recognizes and supports adult individuals in New Jersey who wish to establish a domestic partnership. This law becomes effective July 10, 2004 and provides that two persons who desire to become domestic partners may execute and file an *Affidavit of Domestic Partnership* with the local registrar, provided they meet the requirements and provisions of the law. This law also makes certain benefits available to dependent domestic partners in cases where both persons are of the same sex and therefore unable to enter into a marriage with each other that is recognized by New Jersey law.

Note that the specific details of the impact of this law on the State-administered retirement systems and the State Health Benefits Program have not yet been determined. The Division will provide additional information when it becomes available.

Pension PERSpective

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www.state.nj.us/treasury/pensions

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